Print your name neatly. If you forget to write your name, or write so sloppily that I can’t read it, you can lose all of the points! Answer all the questions that you can. Circle your answer.

There is no partial credit. All problems are worth 1 point each. Do all of your work in the space provided for you. I will only accept hand written solutions, do not turn in typed up solutions! Do not hand in scrape work! Do your scrape work on scratch paper. I WILL ONLY ACCEPT A PRINT OUT. DO NOT EMAIL THIS TO ME!

You must show your work. You will not receive credit for lucky guesses. Show your work as clearly as you can: if I can’t understand how you got an answer, I will not give you credit for it.

DO NOT WRITE ON THIS PAGE IN THE SPACE BELOW

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A Note to the student: The following problems are designed to enhance your understanding of the project. This homework set is designed to go with the handout project2-byhand.pdf on my web site. Before attempting to work this homework set you should read this handout. It gives you all of the necessary information to answer the questions (Correctly!).
**Problem 1:** What is the goal of the second project?

**Problems 2-4:** *Recall:* An option is a contract that gives the holder the right either to buy or to sell a certain asset at a certain price within a certain period of time. In our case the asset is stock in a company.

**Problem 2:** *True or False:* A call option allows the holder of the option to sell his stock.

**Problem 3:** *True or False:* A put option allows the holder of the option to sell his stock.

**Problem 4:** *True or False:* You can only exercise an American option on the expiration date given on the contract.
Problems 5-12 Buying, and (maybe) exercising a European call option. For this set of problems assume that you don’t own the stock.

Suppose IBM is trading at $70 today. We buy 1 option for $1.00 with a strike price of $75 with an expiration date 6 weeks from today. This gives us the right to purchase 1 share of IBM at $75 on that day.

Below are four scenarios for the value of the IBM stock on the expiration date.
(a) For each case indicate whether or not you would exercise the option.
(b) Determine the net profit/loss in each of these cases. Be sure to keep in mind that you do not own the stock.

(5-6) $81?

(7-8) $76?

(9-10) $75?

(11-12) $50?

Problems 13-20 Buying, and (maybe) exercising a European put option. For this set of problems assume that you own the stock.

Suppose IBM is trading at $70 today. We buy 1 option for $1.00 with a strike price of $65 with an expiration date 6 weeks from today. This gives us the right to purchase 1 share of IBM at $75 on that day.

Below are four scenarios for the value of the IBM stock on the expiration date.
(a) For each case indicate whether or not you would exercise the option.
(b) Determine the net profit/loss in each of these cases. Be sure to keep in mind that you own the stock.

(13-14) $72?

(15-16) $66?

(17-18) $65?

(19-20) $50?